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WASHINGTON NOTES

A NEW FORM OF BANK PAPER

After a prolonged period of consideration the Federal Reserve Board has issued regulations covering transactions in acceptances. Acceptances are dealt with in the Federal Reserve act in two different sections—secs. 13 and 14. Sec. 13 deals with the “acceptance” as one of the forms of paper in the discount of which federal reserve banks may engage, restricting the discount of acceptances to such as bear the indorsement of a member bank. Sec. 14 invests the federal reserve banks, under regulations to be prepared by the Federal Reserve Board, with power to engage in open-market operations, of which the “banker’s acceptance” is one of the most important. The Board now announces the conclusion that, at any rate in the first stages, so far as practicable, priority should be given to operations under sec. 13. It is believed, however, that it would unduly restrict the development of the acceptance business to keep it altogether confined within the provisions of sec. 13, which require that acceptances, in order to be eligible for rediscount at a federal reserve bank, must bear the indorsement of a member bank; particularly in view of the further fact that the law limits the amount of acceptances which may be taken with the indorsement of a member bank to 50 per cent of its paid-in capital and surplus. Having found it necessary to extend the scope of dealings in acceptances beyond these limits, the Board has exercised the authority conferred upon it by sec. 14, and has formulated regulations covering the purchase of acceptances without invariably requiring the indorsement of a member bank.

The Board has determined to allow the federal reserve banks latitude in fixing rates for acceptances. Federal reserve banks may, from time to time, submit for the approval of the Board maximum and minimum rates within which they desire to be authorized to deal in acceptances; within such limits, and subject to such modifications as may be imposed by the Board, the federal reserve banks will be allowed to establish the rates at which they will deal in this class of paper. It is as yet uncertain how the rates thus to be proposed will vary or what level they will assume. The Board regards it as in accordance with the spirit of the act to grant preferential treatment to acceptances bearing the indorsement of member banks, offered for rediscount under sec. 13—even to the point of allowing lower rates for such acceptances, inasmuch as, under the terms of this section, such acceptances are available as collateral against the issue of federal reserve notes; and it consequently sanctions a slight

preferential in favor of acceptances bearing the indorsement of member banks.

When acceptances bearing the indorsement of member banks are not obtainable in adequate amount or upon satisfactory forms, federal reserve banks desiring to purchase acceptances are directed to restrict themselves, as far as possible, to such acceptances as bear some responsible signature other than that of the drawer and the acceptor, preferably that of a bank or banker.

The definition given to the term "acceptance" in the new circular of the Board is:

a draft or bill of exchange drawn to order, having a definite maturity and payable in dollars, in the United States, the obligation to pay which has been *accepted* by an acknowledgment written or stamped and signed across the face of the instrument by the party on whom it is drawn, such agreement to be to the effect that the acceptor will pay at maturity according to the tenor of such draft or bill without qualifying conditions.

In determining eligibility, the Board orders that, to be available for discount under sec. 13, by the federal reserve banks, at the rates to be established for bankers' acceptances:

a) Acceptances must comply with the general restrictions and limitations of the Federal Reserve act and of the National Bank act.

b) Acceptances must have been made by a member bank, non-member bank, trust company, or by some private banking firm, person, company, or corporation engaged in the business of accepting or discounting.

c) A banker's acceptance must be drawn by a commercial, industrial, or agricultural concern (that is, some person, firm, company, or corporation) directly connected with the importation or exportation of the goods involved in the transaction in which the acceptance originated.

d) A banker's acceptance must bear on its face, or be accompanied by evidence in form satisfactory to a federal reserve bank, that it originated in an actual bona fide sale or consignment involving the importation or exportation of goods. Such evidence may consist of a certificate on or accompanying the acceptance to the following effect:

This acceptance is based upon a transaction involving the importation or exportation of goods. Reference No. —. Name of acceptor: — — —.

e) Bankers' acceptances, other than those of member banks, shall be eligible only after the acceptors shall have agreed in writing to furnish to the federal reserve banks of their respective districts, upon request, information concerning the nature of the transactions against which acceptances have been made.

f) A bill of exchange accepted by a "banker" may be considered as drawn in good faith against "actually existing values," when it is secured by a lien on or by transfer of title to the goods to be transported.

g) Except in so far as they may be secured by a lien on or by transfer of the title to the goods to be transported, the bills of any person, firm, company, or corporation, drawn on and accepted by any private banking firm, person, company, or corporation (other than a bank or trust company) engaged in the business of discounting or accepting, and discounted by a federal reserve bank, shall at no time exceed in the aggregate a sum equal to 5 per centum of the paid-in capital of such federal reserve bank.

h) The aggregate of acceptances of any private banking firm, person, company, or corporation (other than a bank or trust company) engaged in the business of discounting or accepting, discounted or purchased by a federal reserve bank, shall at no time exceed a sum equal to 25 per centum of the paid-in capital of such federal reserve bank.

To be eligible for purchase by federal reserve banks under section 14, bankers' acceptances must comply with all requirements and be subject to all limitations hereinbefore stated, except that they need not be indorsed by a member bank: *Provided, however,* That no federal reserve bank shall purchase the acceptance of a "banker" other than a member bank which does not bear the indorsement of a member bank, unless it has first secured a satisfactory statement of the financial condition of the acceptor in form to be approved by the Federal Reserve Board.

THE LATEST DEFEAT OF THE LITERACY TEST

President Wilson, on January 28, sent to the Senate a veto of H.R. 6060 relating to the immigration of aliens into the United States (H.R. Doc. 1527). This veto message was subsequently duly brought up in the House of Representatives where it appeared that insufficient votes were at hand to overrule it. Another effort to adopt a measure restricting immigration has therefore failed. This situation is more interesting because of the fact that it is the third bill within twenty years that has met similar defeat, one bill having been vetoed by President Cleveland on March 2, 1897, and another by President Taft shortly before leaving office on March 4, 1913. The House bill H.R. 6060, now vetoed by President Wilson, was practically a revision and codification of the existing immigration laws, but the essential feature of it, which received the criticism of the President, was found in the so-called literacy test, which provided that four months after the passage of the act there should be excluded from the United States—

All aliens over sixteen years of age, physically capable of reading, who cannot read the English language, or some other language or dialect, including Hebrew or Yiddish:

Provided, That any admissible alien or any alien heretofore or hereafter legally admitted, or any citizen of the United States, may bring in or send for

his father or grandfather over fifty-five years of age, his wife, his mother, his grandmother, or his unmarried or widowed daughter, if otherwise admissible, whether such relative can read or not; and such relative shall be permitted to enter. For the purpose of ascertaining whether aliens can read, the immigrant inspectors shall be furnished with slips, of uniform size, prepared under the direction of the Secretary of Labor, each containing not less than thirty nor more than forty words in ordinary use, printed in plainly legible type in some one of the various languages and dialects of immigrants. Each alien may designate the particular language or dialect in which he desires the examination to be made, and shall be required to read the words printed on the slip in such language or dialect.

It was to this literacy test that President Wilson chiefly directed his criticism in the veto message to which reference has just been made. He there said:

The literacy test and the tests and restrictions which accompany it constitute an even more radical change in the policy of the nation. Hitherto we have generously kept our doors open to all who were not unfitted by reason of disease or incapacity for self-support or such personal records and antecedents as were likely to make them a menace to our peace and order or to the wholesome and essential relationships of life. In this bill it is proposed to turn away from tests of character and of quality and impose tests which exclude and restrict; for the new tests here embodied are not tests of quality or of character or of personal fitness, but tests of opportunity. Those who come seeking opportunity are not to be admitted unless they have already had one of the chief of the opportunities they seek, the opportunity of education. The object of such provisions is restriction, not selection. If the people of this country have made up their minds to limit the number of immigrants by arbitrary tests and so reverse the policy of all the generations of Americans that have gone before them, it is their right to do so. I am their servant and have no license to stand in their way. But I do not believe that they have.

The present period is probably the most favorable for bringing about a limitation of immigration that has been offered for some years past, owing to the large outward flow of foreign population and the greatly decreased inward movement during the past six months since the opening of the European war, while the depression of business has immensely slackened the manufacturing demand for foreign labor which is ordinarily felt. The official figures of the immigration movement from August 1, 1914, to February 2, 1915, covering practically the six months during which the war has been in progress in Europe, afford the following results in comparison with figures for the corresponding period one year before:

	August 1 to February 2	
	1913-14	1914-15
Total number of aliens arriving at all ports	747,921	239,696
Number of aliens arriving at Baltimore, Boston, New York, Philadelphia, and Atlantic seaports of Canada . .	648,397	143,849
Number of citizens arriving at Baltimore, Boston, New York, Philadelphia, and Atlantic seaports of Canada . .	121,958	112,766

Documents which are likely to figure in the history of the immigration restriction movement which has culminated in the defeat of this latest effort to apply a literacy test are the report of the House of Representatives Committee on Immigration (H.R. report 149, 63d Cong., 2d sess.) and the report of the Senate Committee on Immigration (Senate report 355, 63d Cong., 2d sess). In both reports a more or less complete and detailed outline of the measure is afforded, but the Senate Committee offers the following general discussion concerning the scope and purpose of the act now vetoed:

In this act . . . special attention and thought have been given to administrative details. The "machinery" for the effective enforcement of the law has been made as nearly as possible perfect in every particular. To attain this end most thorough consideration has been given the subject, the reports of the Immigration Commission have been consulted, and recommendations and suggestions submitted by the Secretary of Labor and by the Commissioner General of Immigration from time to time have been adopted wherever possible; moreover, officers of experience in the practical administration of the laws heretofore passed have been freely and fully conferred with. Indeed, it may be said that in its administrative features this bill embodies the results of a practical experience of a quarter of a century in the "regulation of immigration."

The bill contains one provision intended directly to restrict immigration, although said provision is also incidentally and to a certain extent selective in its operation. The "illiteracy test" has been adopted as the best device so far suggested for reducing immigration, where it most needs to be reduced. So fully has it been discussed at various times in the past that the committee does not deem it necessary to offer in this report extended comment upon it.

Most of the time your committee has given to the bill has been devoted to its careful review with the object of improving its wording wherever simplification and clarification seemed possible, and in perfecting at a few points its selective and administrative features. . . . So thoroughly has the act been drawn and so carefully have its provisions been considered on the several occasions when measures of substantially the same kind have been under discussion by the Senate and House and their committees, that this committee

found that, while the act, as referred to, needed some revision, the required amendments were principally on administrative details and minor matters. As now reported, it is confidently believed the measure is as nearly ideal in its selective, administrative, and restrictive features as it is possible to make such a law in advance of experience with the operation of such of its provisions as are actually new.

RAILWAY MAIL PAY

The action of the Senate in devoting practically all of its available time during the current session of Congress to the discussion of the Ship Purchase bill proposed by the administration has practically prevented, among other things, the serious consideration of the railway mail-pay question with a view to final settlement. While the Post-Office Appropriation bill was in the House of Representatives the administration's plan for readjusting railway mail pay was attached to it and the bill was adopted with that included. Subsequently the provision was stricken out while the bill was in the Senate Committee on Post-Offices, for it was felt that the retention of the plan would lead to unlimited debate, and that in consequence of the sacrifice of time in discussing the shipping measure, an impasse regarding the mail-pay question would simply be another barrier to an adjournment on March 4 free of the danger of an extra session of Congress. The consequence was to defer the further consideration of the subject until the meeting of a conference committee on the Post-Office Appropriation bill, where thus far nothing has been done. With or without the administration plan for adjusting the mail-pay controversy, however, the Post-Office bill failed to dispose of the problem because of the lack of consideration given to the position of the carriers. That position may be stated as follows: Prior to the adoption of the parcel-post system, the railways had been paid in proportion to weight of mail carried, the weight being determined by quadrennial weighings. This, of course, was upon the theory that the increase in mail weight was practically uniform from year to year, and that in consequence, by allowing a fair average rate of remuneration, an adjustment every four years resulted on the whole in an equitable compensation for the service of transportation. When the parcel-post system was inaugurated, there was naturally a very great addition to the volume of mail carried which had no relation to the natural growth in the weight of mail resulting from increase of population and increased density of business. It is this situation which has led the carriers from time to time to contend that they were being obliged to carry parcel-post matter

“free” or without compensation. Conditions were to some extent relieved as the weighing periods recurred and as the newly established weights consequently took account of the growth in business due to the introduction of the parcels service. Up to date, such reweighings have occurred in two of the mail-contract divisions into which the country is classified, and a reweighing takes place in a third in the near future. It will not be long before the compensation of the railways on the old basis will have been adjusted to the new volume of mail as determined at the quadrennial weighings. This, however, takes no account of the fact that the parcel-post service is being steadily expanded by opening it to different classes of merchandise and by extending the weight limit. In other words, the basis of pay seems to lag constantly behind the rate of growth in volume of mail. Some palliative has been afforded by Congress in the appropriation of \$1,700,000.00 annually for each of the past two years for the purpose of making additional compensation to roads for their increased volume of mail, such increase in no case to exceed 5 per cent of the former compensation. That limitation has operated to prevent the elimination of a great many hardships which might otherwise have been largely alleviated. In some cases the actual reweighing of mail has shown that complaints of roads concerning excessive burdens imposed upon them due to a growth of the service were not well founded, the reweighing indicating that the growth in weight had been less than the 5 per cent allotted. Fundamentally, the difficulty lies in the unduly long periods which elapse between reweighings and in the character of the method adopted for the purpose of compensating the railways. The old method is clearly not adapted to the establishment of a reasonable basis of payment.

The railways, whose position has recently been clearly stated by Mr. Ralph Peters, chairman of the Railroads' Committee on Railway Mail Pay, ask:

1. For the repeal of the act of March 2, 1907 [the present mail-pay act].
2. For annual weighings and a definite and just method for ascertaining daily average weights.
3. For pay for apartment cars on some basis that will compensate for the service.
4. For a fair allowance to the railroads for side and terminal messenger service which they perform for the Post-Office Department according to the value of this service to the Post-Office Department.
5. That all rates of pay should be definite and not subject to the discretion of the officers of the Post-Office Department.

Mr. Peters' further says:

The railroad committee throughout its existence has not failed to give the most thorough consideration to the proposal that space rather than weight be made the measure of the service rendered, but is absolutely convinced by its consideration of the subject that any such plan would be dangerous to the government and unsatisfactory to the railroads, principally because of the large amount of discretion the adjustment would leave to the officers of the department. This conclusion is not inconsistent with the deepest faith in the honesty of the departmental officers, but recognizes the disadvantages of their position under our political form of government and the opportunities which would present themselves for serious irregularities.

The growth of the republic has brought about a vast concentration of public business at the national capital, and while it is the expectation that when discretion is allowed under a law it shall be exercised by the chief officer of the department, it is a physical impossibility for him to personally examine the cases in order to exercise this discretion, and it is likewise physically impossible for this important duty to be performed by the chief officers under his control. The result is that an important question such as this would rest upon the opinions of hundreds of subordinate officials and the possibilities are uncomfortable to contemplate.

The government proposal differs very decidedly from that of the railways, being based on the space plan. Its essential idea is to provide four classes of service on railway mail routes, viz.: full railway post-office-car service, apartment railway post-office-car service, storage-car service, and closed-pouch service. The basic features of the plan as contained in the government's scheme adopted by the House are as follows:

Full railway post-office-car mail service shall be service by cars forty feet or more in length, constructed, fitted up, and maintained for the distribution of mails on trains. The authorization of full railway post-office cars shall be for standard-sized cars sixty feet in length, inside measurements, except as hereinafter provided. Apartment railway post-office-car mail service shall be service by apartments less than forty feet in length in cars constructed, fitted up, and maintained for the distribution of mails on trains. Two standard sizes of apartment railway post-office cars may be authorized and paid for, namely, apartments fifteen feet and thirty feet in length, inside measurements, except as hereinafter provided. Storage-car mail service shall be service by cars used for the storage and carriage of mails in transit other than by full and apartment railway post-office cars. The authorizations for storage cars shall be for cars sixty feet in length, inside measurement, except as hereinafter provided; Provided, that less than sixty feet of storage space may be authorized in baggage cars. Service by full and apartment railway post-office cars and storage

cars shall include the carriage therein of all mail matter, equipment, and supplies for the mail service and the employees of the postal service or Post-Office Department as shall be directed by the Postmaster-General to be so carried. Closed-pouch mail service shall be the transportation and handling by railroad employees of mails on trains on which full or apartment railway post-office cars are not authorized except as hereinbefore provided. The rates of payment for the services authorized in accordance with this act shall be as follows: namely, for full railway post-office-car mail service at not exceeding 21 cents for each mile of service by a sixty-foot car. In addition thereto he may allow not exceeding \$2.00 as an initial rate and the same as a terminal rate for each one-way trip of a sixty-foot car. For apartment railway post-office-car mail service at not exceeding $10\frac{1}{2}$ cents for each mile of service by a thirty-foot apartment car and $5\frac{1}{2}$ cents for each mile of service by a fifteen-foot apartment car. In addition thereto he may allow not exceeding \$1.00 as an initial rate and the same as a terminal rate for each one-way trip of a thirty-foot apartment car and 50 cents as an initial rate and the same as a terminal rate for each one-way trip of a fifteen-foot apartment car; for storage-car mail service at not exceeding 20 cents for each mile of service by a sixty-foot car. In addition thereto he may allow not exceeding \$2.00 as an initial rate and the same as a terminal rate for each one-way trip of a sixty-foot car.

THE TREASURY SITUATION

One of the most interesting economic phenomena growing out of the European war has been the gradual exhaustion of many sources of revenue which ordinarily yield a large proportion of the income of the federal government. The tariff during the period from July 1, 1914, to about the end of February, 1915, has yielded approximately \$138,000,000.00, or about \$60,000,000.00 less than during the corresponding period a year ago. This was to be expected in view of the great change in the character and volume of foreign trade resulting from the limitation of productive power in nearly every European country and the consequent reduction of exportation from such countries, particularly to the United States. The power of the tariff to yield revenue has shown little recovery since the opening of the war; indeed, in some respects it has fallen off owing to the fact that the amount of goods in bonded warehouses, subject to withdrawal and presentation for the payment of customs duties, has very materially declined since hostilities were opened. More remarkable, however, than the decline in tariff duties has been the relative falling-off in internal revenue. Ordinary internal revenue up to the close of February amounted to about \$215,000,000.00 or practically \$7,000,000.00, or \$8,000,000.00 more than for the corresponding period a year ago. It should be remembered, however, that the war revenue act of last October is now in full operation, and that, in

spite of the fact that more than three months have gone by since it became completely effective, it has succeeded in increasing the yield of the internal revenue system but little. Delayed payments on corporation and income tax, the collection of penalties and other sources of revenue not operative a year ago, have increased the yield on those accounts (always light until the end of the fiscal year when the bulk of the payments are made) by some six or seven million dollars, while miscellaneous sources of revenue have brought in about ten million dollars more than last year. In the aggregate there is thus far a combined shortage of revenue as compared with last year (July 1 to March 1) of about \$38,000,000.00. It is an unfortunate fact that there has been no decrease in the ordinary expenditures of the government, but on some accounts a material advance, so that up to the end of February expenses had exceeded those for the corresponding period a year ago by about \$25,000,000.00. An excess of disbursements over receipts amounting to about \$105,000,000.00, or nearly \$55,000,000.00 more than last year at this time, has consequently been recorded. Should this situation continue, it is evident that before the end of the fiscal year a somewhat serious financial problem will be raised. The net balance in the general fund of the Treasury at the end of February was slightly over \$40,000,000.00. This means that a continuance of the deficit at the present rate would more than wipe out the entire balance in the general fund. As has already been noted, the payments on account of corporation and income tax are made chiefly during June; and last year these were sufficient to more than offset the deficit which had been incurred prior to the time that the payments on these accounts fell due. Remembering, however, that the past six months have been a period of very great reduction in the net incomes of corporations as well as of individuals, there is serious reason to expect a very large decline in the amount of income- and corporation-tax yields for the present year. Pending the rendering of the new income-tax and corporation-tax statements, no definite estimate can be framed with regard to this element of revenue, but it seems conservative to state that even under favorable conditions, the fiscal year will close with a large deficit and that the war-revenue tax shows as yet little indication of being able to offset the losses in tariff receipts. There may be an improvement as unexpected as was the decline, but there is nothing thus far that would indicate it, while the heavy appropriations that are being provided for by Congress, and that take effect immediately after July 1, 1916, will create a very severe draft upon the funds of the Treasury in hand at the opening of the new fiscal year, whatever they may be. This great

decrease (relatively speaking) in the yield of both customs and internal revenue furnishes an index to the effect of the European war and of the consequent depression of business in weakening the income-producing power of the industries of the United States, and in reducing their reliability as sources of public revenue. It is thus apparent that a continuance of the war abroad will almost inevitably lead in the near future to a sale of bonds or to the enactment of still further revenue legislation in the absence of offsetting conditions not now in sight. To dispose of bonds for the purpose of tiding over the Treasury would be a step most undesirable from the political standpoint and not likely to be taken except in the presence of some serious emergency which would practically dictate it. This brings the question of revenue legislation sharply to the front. Further revision of the tariff and the revision of the income tax are the two methods of relieving the situation most frequently suggested, the restoration of the sugar duties upon a moderate basis being the tariff proposal now quite generally put forward. The adjournment of Congress, probably until December next, seems to indicate that no legislation can be had during the summer or autumn, and raises the question whether short-term financing through the federal reserve banks may not be resorted to in the event that the resources of the government should be reduced to a point which would necessitate reliance upon outside aid pending the recovery of the revenues. The Federal Reserve act provided that the new banks should act as fiscal agencies of the government and should hold the public funds subject to the order of the Secretary of the Treasury, to be distributed as he might see fit. Thus far they have not been employed in this capacity. It would be comparatively easy to transfer public moneys to them, thus giving to the government the status of a depositor and enabling it to obtain short term accommodations in anticipation of revenues, so far as existing legislation on the subject of public borrowing will permit, or to dispose of longer-term bonds to the banks in case of necessity, inasmuch as these institutions were expressly authorized to deal in securities of the United States. Continuance of the European war will therefore be likely to bring about two new developments in American finance—the one a remodeling more or less far-reaching of the revenue system, the other the adoption of new methods and channels for the borrowing of funds to tide over temporary shortages. Precisely when and in what forms these developments will present themselves must be determined as a result of the continued growth of the deficit in the Treasury.